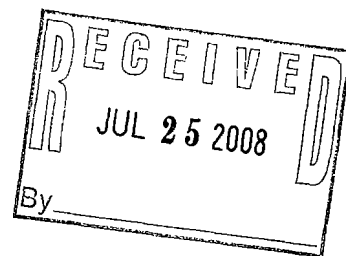


REPORT OF THE AUDIT OF THE
JOHNSON COUNTY FISCAL COURT

For The Fiscal Year Ended

June 30, 2007



WELLS & COMPANY, P.S.C.

Certified Public Accountants

865 South Mayo Trail, Suite 7
Paintsville, Kentucky 41240

(606) 789-3588

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE JOHNSON COUNTY FISCAL COURT

June 30, 2007

Wells & Company, PSC has completed the audit of the Johnson County Fiscal Court for fiscal year ended June 30, 2007.

We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Johnson County, Kentucky.

Financial Condition:

The Fiscal Court had net assets of \$10,156,771 as of June 30, 2007. The Fiscal Court had unrestricted net assets of \$2,860,745 in its governmental activities as of June 30, 2007, with total net assets of \$10,156,771. The Fiscal Court had total debt principal as of June 30, 2007 of \$9,102,055 with \$576,494 due within the next year.

Report Comments:

2007-1 The Fiscal Court Should Properly Record All Transactions To The Receipt Ledger

Deposits:

The Fiscal Court's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
JOHNSON COUNTY OFFICIALS.....	3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4
STATEMENT OF NET ASSETS – MODIFIED CASH BASIS.....	14
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS.....	16
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS.....	18
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS.....	21
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS.....	24
NOTES TO FINANCIAL STATEMENTS.....	26
BUDGETARY COMPARISON SCHEDULES	39
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	43
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS.....	45
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS.....	48
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	51
COMMENTS AND RECOMMENDATIONS.....	54
APPENDIX A:	
CERTIFICATION OF COMPLIANCE – LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



WELLS & COMPANY, P.S.C.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Roger T. Daniel, Johnson County Judge/Executive
Members of the Johnson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Johnson County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Johnson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Johnson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Johnson County, Kentucky, as of June 30, 2007, and the respective changes in financial position thereof for the year ended in conformity with the modified cash basis of accounting.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Roger T. Daniel, Johnson County Judge/Executive
Members of the Johnson County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Johnson County, Kentucky's basic financial statements. The accompanying supplemental information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 3, 2008, on our consideration of Johnson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2007-01 The Fiscal Court Should Properly Record All Transactions To The Receipt Ledger

Respectfully submitted,

Wells & Company, PSC

Wells & Company, PSC
Certified Public Accountants

January 3, 2008

JOHNSON COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

Roger T. Daniel	County Judge/Executive
Paul Daniel	Commissioner
Kathy Adams	Commissioner
Darren Gamble	Commissioner

Other Elected Officials:

Michael Endicott	County Attorney
Steve Sluss	Jailer
Sally A. Holbrook	County Clerk
Vicki Rice	Circuit Court Clerk
William D. Witten	Sheriff
Michael Stafford	Property Valuation Administrator
J. R. Frisby	Coroner

Appointed Personnel:

Adaline Stambaugh	County Treasurer
Edadeane Bussey	Occupational Tax Collector
Betty Picklesimer	Finance Officer
Donald G. Patton	Deputy Judge
Johnna Conley	Administrative Assistant
Lillian Wheeler	Programs and Projects Coordinator



Office Of The Judge/Executive
Johnson County Court House

338 2ND STREET
P. O. BOX 868
PAINTSVILLE, KENTUCKY 41240
Phone 606-789-2550
Fax 606-789-2555

R. T. DANIEL
COUNTY JUDGE/EXECUTIVE

Management's Discussion and Analysis
June 30, 2007

The financial management of Johnson County, Kentucky offers readers of Johnson County's financial statements this narrative overview and analysis of the financial activities of Johnson County for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Johnson County had net assets of \$10,156,771 as of June 30, 2007. The Fiscal Court had unrestricted net assets of \$2,860,745 in its governmental activities as of June 30, 2007. Total debt principal as of June 30, 2007 was \$9,102,055 with \$576,494 due within one year.
- The government's total net assets increased by \$1,247,893 from the prior year. This increase is primarily due to the decrease in expenditures from the prior year and prior period adjustments.
- At the close of the current fiscal year, Johnson County's balance sheet reported a fund balance of \$2,812,723. Of this amount, \$2,733,545 is available for spending at the government's discretion (unreserved fund balance).
- Johnson County's total indebtedness at the close of fiscal year June 30, 2007 was \$9,102,055, of which \$8,525,561 is long-term debt (due after 1 year) and \$576,494 is short-term debt (to be paid within 1 year). Debt reductions were \$722,424 during the year.
- Johnson County bought some new vehicles and road equipment at a cost of \$109,210 and did \$1,229,173 in road resurfacing and reconstruction without incurring additional debt for these items.

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to Johnson County's basic financial statements. Johnson County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of Johnson County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Johnson County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Johnson County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Johnson County's governmental activities include general governmental, protection to persons and property, general health and sanitation, roads, recreation, social services, debt service, and administration. The County has no business-type activities.

The government-wide financial statements include not only Johnson County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Johnson County has two entities, the Public Properties Courthouse Corporation and the Justice Center Corporation. They are known as blended component units.

Fund Financial Statements.

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Johnson County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Johnson County are *governmental funds*.

Governmental Funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Johnson County maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, LGEA Fund, Industrial Authority #3 Fund, and Justice Center Corporation Fund, all of which are considered major funds by the County. The Jail Fund, Mountain Homeplace Economic Development Project Fund, Special Insurance Fund, Industrial Authority #1 Fund, Industrial Authority #2 Fund, Industrial Authority #4 Fund, Homeland Security Fund, Maced Microenterprise Assistance Fund, and Public Properties Courthouse Corporation Sinking Bond Fund are considered non-major funds and are represented in a combined form.

Johnson County adopts an annual appropriated budget for its major governmental funds except the Justice Center Corporation. A budgetary comparison statement has been provided for the General, Road, LGEA, and Industrial Authority #3 funds to demonstrate compliance with their budgets.

Notes to the Financial Statements.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis.

Net Assets.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, total assets exceeded liabilities by \$10,156,771 for fiscal year 2007 and \$8,908,878 for fiscal year 2006. Net assets increased primarily due to the capitalization of repairs and resurfacing to roads.

Net Assets. (Continued)

Table 1
Summary of Statement of Net Assets
as of June 30, 2007 and 2006

	Governmental Activities 2007	Governmental Activities 2006
Assets		
Current and other assets	\$ 3,126,136	\$ 3,548,724
Capital assets	<u>16,132,690</u>	<u>15,268,420</u>
Total Assets	19,258,826	18,817,144
Liabilities		
Current and other liabilities	576,494	687,980
Long-term liabilities	<u>8,525,561</u>	<u>9,220,286</u>
Total Liabilities	9,102,055	9,908,266
Net Assets		
Invested in capital assets, net of related debt	7,216,848	5,630,154
Restricted	79,178	82,771
Unrestricted	<u>2,860,745</u>	<u>3,195,953</u>
Total Net Assets	<u>\$10,156,771</u>	<u>\$ 8,908,878</u>

Statement of Activities.

The following table indicates changes in net assets for governmental activities:

Statement of Activities (Continued)

Table 2
Summary of Changes in Net Assets
For the Fiscal Years Ended June 30, 2007 and 2006

	Governmental Activities 2007	Governmental Activities 2006
Revenues:		
Program revenues:		
Charges for services	\$ 8,793	\$ 13,457
Operation grants and contributions	2,622,936	3,057,932
Capital grants and contributions	1,624,715	2,578,638
General revenues:		
Real property tax	665,631	548,021
Motor vehicle taxes	26,968	16,389
Occupational taxes	884,230	953,674
Other taxes	351,973	350,370
Excess fees	1,321,590	1,083,002
Unrestricted investment earnings	153,963	187,361
Other revenues	<u>751,046</u>	<u>6,745</u>
Total revenues	8,411,845	8,795,589
Expenses:		
General government administration	2,148,771	2,793,102
Protection to persons and property	984,827	1,149,449
General health and sanitation	1,235,488	1,346,738
Social Services	69,320	53,859
Recreation and culture	1,478	25,000
Roads	1,360,011	2,025,438
Debt service	387,471	352,293
Capital projects	-	10,385
Administration	<u>976,586</u>	<u>15,795</u>
Total expenses	7,163,952	7,772,059
Change in net assets	<u>1,247,893</u>	<u>1,023,530</u>
Net assets-beginning	<u>8,908,878</u>	<u>7,885,348</u>
Ending net assets	<u>\$10,156,771</u>	<u>\$8,908,878</u>

Financial Analysis of the County's Funds.

As noted earlier, Johnson County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Johnson County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2007 fiscal year, the ending fund balance of County governmental funds was \$2,812,723. Approximately 97% (\$2,733,545) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds.

The County has five major governmental funds. These are the General Fund, Road Fund, LGEA Fund, Industrial Authority #3 Fund, and Justice Center Corporation Fund. There are 9 non-major funds. They are the Jail Fund, Mountain Homeplace Economic Development Project Fund, Special Insurance Fund, Industrial Authority #1 Fund, Industrial Authority #2 Fund, Industrial Authority #4 Fund, Homeland Security Fund, Maced Microenterprise Assistance Fund, and Public Properties Courthouse Corporation Sinking Bond Fund.

1. The General Fund is the chief operating fund of Johnson County. At the end of the June 30, 2007 fiscal year, unreserved fund balance of the General Fund was \$1,007,161. The County received \$884,230 in Occupational tax revenues. This accounts for approximately 17% of the General Fund revenue. \$665,631 was received from real and personal property taxes and accounts for approximately 13% of the County's General Fund revenues. The County collected \$1,321,590 in excess fees from the Sheriff and Clerk. This accounts for approximately 26% of the General Fund revenues. Various other taxes and service fees make up the remaining 44% of revenues.
2. The Road Fund is the fund related to County road and bridge construction and maintenance. The Road Fund had \$178,169 in fund balance at June 30, 2007. The fund balance at the end of the previous year was \$618,804. The fiscal year 2007 expenditures for road projects were \$2,086,981.
3. The Justice Center Corporation Fund is used for the construction on the new Justice Center. It was funded by the issuance of revenue bonds \$9,540,000. The Justice Center Corporation had a fund balance at June 30, 2007 of \$42,718. The fiscal year 2007 expenditures for the Justice Center project were \$832,339.
4. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had an unreserved fund balance at June 30, 2007 of \$53,050, a decrease of \$21,898 over the previous fiscal year end.
5. The Local Government Economic Assistance Fund had a fund balance of \$684,329, a decrease of \$54,686 over the previous fiscal year end.

Financial Analysis of the County's Funds. (Continued)

6. The Mountain Homeplace Economic Development Project Fund had a fund balance of \$32,612, an increase of \$1,717 over the previous fiscal year end.
7. The Special Insurance Fund had a fund balance of \$53,599, an increase of \$993 over the previous fiscal year end.
8. The Industrial Authority #1 Fund is restricted to the recruitment of new companies and jobs to the County. The year end balance of this Fund was \$211,695, an increase of \$11,147 over the previous fiscal year end.
9. The Industrial Authority #2 Fund is restricted to the recruitment of new companies and jobs to the County. The year end balance of this Fund was \$11,996, an increase of \$632 over the previous fiscal year end.
10. The Industrial Authority #3 Fund is restricted to the recruitment of new companies and jobs to the County. The year end balance of this Fund was \$473,006, an increase of \$24,906 over the previous fiscal year end.
11. The Industrial Authority #4 Fund is restricted to the recruitment of new companies and jobs to the County. The year end balance of this Fund was \$27,928, an increase of \$1,471 over the previous fiscal year end.
12. The Homeland Security Fund accounts for the operation of the County's emergency situations. It is supported primarily from federal money. The Fund had a fund balance of \$0 at the end of the June 30, 2007 fiscal year.
13. The Maced Microenterprise Assistance Fund provides lending and technical assistance to individuals setting up new businesses. The year end balance of this Fund was \$0.
14. The Public Properties Courthouse Corporation Sinking Bond Fund had an ending fund balance of \$36,460 at the end of the fiscal year. Its activities are restricted to debt reduction on the Courthouse Corporation Bond issue. Outstanding debt on the Courthouse Corporation is \$0.

General Fund Budgetary Highlights.

The County's original budget was amended during the fiscal year increasing the operating budget by \$156,533. Budget amendments were made to all areas due to grants, surplus cash carried forward, and an increase in other unexpected revenues.

Actual operating revenues were \$494,251 more than amount originally budgeted by the Fiscal Court. This increase was primarily from unexpected intergovernmental revenues and excess fees received from the County Clerk and Sheriff.

Actual operating expenditures were \$323,149 less than amount originally budgeted by the Fiscal Court. This decrease was primarily from the general government and general health and sanitation expenditures.

Capital Assets and Debt Administration.

Capital Assets. Johnson County's investment in capital assets for its governmental activities as of June 30, 2007, amounts to \$16,132,690 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions. Additional information on capital assets can be found in Note 3 of this report.

Table 3
Capital Assets

	<u>June 30, 2006</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2007</u> <u>Balance</u>
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Net Being Depreciated:				
Land and Land Improvements	\$ 1,320,000	\$ -	\$ -	\$ 1,320,000
Total Capital Assets Net Being Depreciated	<u>1,320,000</u>	<u>-</u>	<u>-</u>	<u>1,320,000</u>
Capital Assets, Being Depreciated:				
Buildings	12,941,862	144,509	-	13,086,371
Other Equipment	220,347	-	-	220,347
Vehicles and Equipment	1,251,882	109,210	(37,400)	1,323,692
Infrastructure	<u>2,393,851</u>	<u>1,084,664</u>	<u>-</u>	<u>3,478,515</u>
Total Capital Assets Being Depreciated	16,807,942	1,338,383	(37,400)	18,108,925
Less Accumulated Depreciation For:				
Buildings	(2,163,253)	(222,841)	-	(2,386,094)
Other Equipment	(33,569)	(7,249)	-	(40,818)
Vehicles and Equipment	(475,648)	(103,839)	25,490	(553,997)
Infrastructure	<u>(187,052)</u>	<u>(128,274)</u>	<u>-</u>	<u>(315,326)</u>
Total Accumulated Depreciation	<u>(2,859,522)</u>	<u>(462,203)</u>	<u>25,490</u>	<u>(3,296,235)</u>
Total Capital Assets, Being Depreciated, Net	<u>13,948,420</u>	<u>876,180</u>	<u>(11,910)</u>	<u>14,812,690</u>
Governmental Activities Capital Assets, Net	<u>\$15,268,420</u>	<u>\$ 876,180</u>	<u>\$ (11,910)</u>	<u>\$16,132,690</u>

Long-Term Debt. At the end of the 2007 fiscal year, Johnson County had total long-term debt outstanding of \$9,102,055. The amount of this debt due within the next year is \$576,494 and \$8,525,561 is due in subsequent years. Additional information on debt can be found in Notes 4 and 5 of this report.

Capital Assets and Debt Administration. (Continued)

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2008 fiscal year budget:

- The 2008 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects which have been completed or are nearing completion.
- Program cuts at the State level may have a negative impact on funding for County programs. The Fiscal Court may decide to alter the operations or funding of County operations impacted by State revenue shortfalls.

Requests For Information

This financial report is designed to provide a general overview of Johnson County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Johnson County Treasurer, P. O. Box 868, Paintsville, Kentucky 41240.

JOHNSON COUNTY
STATEMENT OF NET ASSETS – MODIFIED CASH BASIS

June 30, 2007

JOHNSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

Page 14

June 30, 2007

PRIMARY GOVERNMENT

**GOVERNMENTAL
ACTIVITIES**

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	2,812,723
Assets Held for Sale		186,213
Total Current Assets		2,998,936

Noncurrent Assets:

Bond Discount		127,200
Capital Assets - Net of Accumulated Depreciation		
Land and Land Improvements		1,320,000
Buildings		10,700,277
Other Equipment		179,529
Vehicles and Equipment		769,695
Infrastructure Assets - Net of Depreciation		3,163,189
Total Noncurrent Assets		16,259,890
Total Assets		19,258,826

LIABILITIES

Current Liabilities:

Noncapitalized Lease		186,213
Revenue Bonds		370,000
Financing Obligations		20,281
Total Current Liabilities		576,494

Noncurrent Liabilities:

Revenue Bonds		8,450,000
Financing Obligations		75,561
Total Noncurrent Liabilities		8,525,561
Total Liabilities		9,102,055

NET ASSETS

Invested in Capital Assets, Net of Related Debt		7,216,848
Restricted For:		
Capital Projects		42,718
Debt Service		36,460
Unrestricted		2,860,745
Total Net Assets	\$	10,156,771

The accompanying notes are an integral part of the financial statements.

**JOHNSON COUNTY
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**

For the Year Ended June 30, 2007

JOHNSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

Page 16

For The Year Ended June 30, 2007

Functions/Programs Reporting Entity	Program Revenues Received				Net (Expenses) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
Primary Government:					
Governmental Activities:					
General Government	\$ 3,125,357	\$ -	\$ 799,106	\$ -	\$ (2,326,251)
Protection To Persons And Property	984,827	8,793	226,463	-	(749,571)
General Health And Sanitation	1,235,488	-	1,002,652	-	(232,836)
Social Services	69,320	-	-	-	(69,320)
Recreation And Culture	1,478	-	-	-	(1,478)
Roads	1,360,011	-	594,715	1,624,715	859,419
Debt Service	387,471	-	-	-	(387,471)
Capital Projects	-	-	-	-	-
Total Governmental Activities	<u>\$ 7,163,952</u>	<u>\$ 8,793</u>	<u>\$ 2,622,936</u>	<u>\$ 1,624,715</u>	<u>(2,907,508)</u>

General Revenues:

Taxes:

Real Property Taxes	665,631
Occupational Taxes	884,230
Motor Vehicle Taxes	26,968
Other Taxes	351,973
Excess Fees	1,321,590
Gain On Sale Of Assets	26,454
Interest	153,963
Other Revenues	<u>724,592</u>

Total General Revenues	<u>4,155,401</u>
Change In Net Assets	<u>1,247,893</u>
Net Assets - Beginning (Restated)	<u>8,908,878</u>
Net Assets - Ending	<u>\$ 10,156,771</u>

The accompanying notes are an integral part of the financial statements.

JOHNSON COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS

June 30, 2007

JOHNSON COUNTY
 BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 June 30, 2007
 (Continued)

Page 19

NON- MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>\$ 427,340</u>	<u>\$ 2,812,723</u>
<u>\$ 427,340</u>	<u>\$ 2,812,723</u>
\$ -	\$ 42,718
36,460	36,460
-	1,007,161
<u>390,880</u>	<u>1,726,384</u>
<u>\$ 427,340</u>	<u>\$ 2,812,723</u>

The accompanying notes are an integral part of the financial statements.

**JOHNSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**

For the Year Ended June 30, 2007



JOHNSON COUNTY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 For The Year Ended June 30, 2007
 (Continued)

NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ 1,912,047
-	16,755
-	1,321,590
130,624	4,247,651
-	8,793
-	724,592
22,049	153,963
<u>152,673</u>	<u>8,385,391</u>
-	1,918,681
421,690	954,504
-	1,235,488
-	69,320
1,478	1,478
-	2,808,308
380,772	1,090,815
-	144,509
12,948	976,586
<u>816,888</u>	<u>9,199,689</u>
 (664,215)	 (814,298)
-	186,213
-	308,364
660,772	660,772
-	(660,772)
<u>660,772</u>	<u>494,577</u>
(3,443)	(319,721)
430,783	3,132,444
<u>\$ 427,340</u>	<u>\$ 2,812,723</u>

The accompanying notes are an integral part of the financial statements.

**JOHNSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**

For the Year Ended June 30, 2007

**JOHNSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

Page 24

For The Year Ended June 30, 2007

Reconciliation To The Statement Of Activities:

Net Change In Fund Balances - Total Governmental Funds	\$ (319,721)
Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense	
Capital Outlay	1,338,383
Depreciation Expense	(462,203)
Disposal Of Assets - Net Book Value	(11,910)
Assets Held For Resale Are Reported In The Funds As An Expenditure But Are Reported As An Asset On The Statement Of Net Assets, Therefore, The Expenditures Has Been Eliminated From The Statement Of Activities	186,213
Financing Obligation And Bond Proceeds Provide Current Financial Resources While Financing Obligation And Bond Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources. These Transactions, However, Have No Effect On Net Assets	
Proceeds From Lease	(186,213)
Financing Obligations Principal Payments	357,424
Bond Principal Payments	365,000
Bond Discount Is Initially Reported As An Expenditure In The Funds But Is Allocated Over The Life Of The Bonds As Bond Discount Expense On The Statement Of Activities	<u>(19,080)</u>
Change In Net Assets Of Governmental Activities	<u><u>\$ 1,247,893</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

Page 25

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	26
NOTE 2.	DEPOSITS.....	32
NOTE 3.	CAPITAL ASSETS.....	32
NOTE 4.	COMMITMENTS UNDER NONCAPITALIZED LEASES.....	33
NOTE 5.	LONG-TERM DEBT.....	33
NOTE 6.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS.....	35
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM.....	35
NOTE 8.	DEFERRED COMPENSATION.....	36
NOTE 9.	INSURANCE.....	36
NOTE 10.	LITIGATION.....	36
NOTE 11.	PRIOR PERIOD ADJUSTMENT.....	37

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENTS

Page 26

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The County presents its government-wide and fund financial statements in accordance with modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the County to report capital assets and infrastructure; however, the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Johnson County include the funds, agencies, boards, and entities for which the Fiscal Court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the County is financially accountable or the organization's exclusion would cause the County's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the Fiscal Court is able to impose its will on these organizations. These organizations' balances and transactions are reported as though they are part of the County's primary government using the blending method.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Johnson County Public Properties Courthouse Corporation

The Public Properties Courthouse Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity has been blended with that of the Fiscal Court.

Johnson County Justice Center Corporation

Johnson County Fiscal Court must approve issue of bonded debt for the Justice Center Corporation; therefore, the Justice Center Corporation is fiscally dependent. In addition, the Fiscal Court approves all payments for the construction of the Justice Center Corporation. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity has been blended with that of the Fiscal Court.

C. Johnson County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Johnson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the Fiscal Court, various cities and special districts within the County, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Johnson County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Johnson County does not have any business-type activities to report in its financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Fiscal Court may also designate any fund as major.

Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for funds that must be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, and industrial and economic development. In no event shall these funds be used for expenses relating to the administration of government. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Industrial Authority #3 Fund – The purpose of this fund is for the recruitment of new employees and jobs to the County.

Justice Center Corporation Fund - The Justice Center Corporation accounts for the activities of the Justice Center Corporation, a blended component unit of the County. The Justice Center Corporation issued debt to build and construct facilities for the Justice Center. The Justice Center Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Governor's Office for Local Government does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Jail Fund, Mountain Homeplace Economic Development Project Fund, Special Insurance Fund, Industrial Authority #1 Fund, Industrial Authority #2 Fund, Industrial Authority #4 Fund, Homeland Security Fund, Public Properties Courthouse Corporation Sinking Bond Fund, and the Maced Microenterprise Assistance Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Mountain Homeplace Economic Development Project Fund, Special Insurance Fund, Industrial Authority #1 Fund, Industrial Authority #2 Fund, Industrial Authority #3 Fund, Industrial Authority #4 Fund, Homeland Security Fund, and the Maced Microenterprise Assistance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Justice Center Corporation Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Public Properties Courthouse Corporation Sinking Bond Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

KRS. 66.480 authorizes the County to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$25,000	10-60
Buildings	\$50,000	10-75
Building Improvements	\$50,000	10-40
Machinery and Equipment	\$5,000	3-25
Vehicles	\$5,000	5
Infrastructure	\$25,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent Fiscal Court's intended use of the resources and should reflect actual plans approved by the Fiscal Court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the Fiscal Court incurs no liability until performance has occurred on the part of the party with whom the Fiscal Court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Courthouse Corporation Sinking Bond Fund or the Justice Center Corporation because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually. Transfers are budgeted in the General Fund for the Public Properties Courthouse Corporation Bond Sinking Fund to comply with the above requirements. The Department for Local Government does not require these funds to be budgeted.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following is considered a related organization of Johnson County Fiscal Court: The Industrial Development Board.

A legal entity or other organizations that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Johnson County Fiscal Court: The Big Sandy Regional Jail.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,320,000	\$ -	\$ -	\$ 1,320,000
Total Capital Assets Not Being Depreciated	1,320,000	-	-	1,320,000
Capital Assets, Being Depreciated:				
Buildings	12,941,862	144,509	-	13,086,371
Other Equipment	220,347	-	-	220,347
Vehicles and Equipment	1,251,882	109,210	(37,400)	1,323,692
Infrastructure	2,393,851	1,084,664	-	3,478,515
Total Capital Assets Being Depreciated	16,807,942	1,338,383	(37,400)	18,108,925
Less Accumulated Depreciation For:				
Buildings	(2,163,253)	(222,841)	-	(2,386,094)
Other Equipment	(33,569)	(7,249)	-	(40,818)
Vehicles and Equipment	(475,648)	(103,839)	25,490	(553,997)
Infrastructure	(187,052)	(128,274)	-	(315,326)
Total Accumulated Depreciation	(2,859,522)	(462,203)	25,490	(3,296,235)
Total Capital Assets, Being Depreciated, Net	13,948,420	876,180	(11,910)	14,812,690
Governmental Activities Capital Assets, Net	\$15,268,420	\$ 876,180	\$(11,910)	\$16,132,690

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Page 33

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Government Activities:

General Government	\$230,090
Protection to Persons and Property	30,323
Roads, Including Depreciation of General Infrastructure Assets	<u>201,790</u>
Total Depreciation Expense – Governmental Activities	<u>\$462,203</u>

Note 4. Commitments Under Noncapitalized Leases

The following is an analysis of the leased property under a noncapitalized lease by class:

<u>Classes of Property</u>	<u>Book value as of June 30, 2007</u>
Dump Truck	\$186,213

The following is a schedule by years of the future minimum lease payments under a noncapitalized lease together with the present value of the net minimum lease payments as of June 30, 2007:

<u>Year Ending June 30,</u>	<u>Noncapitalized Lease Payable</u>
2008	<u>\$200,000</u>
Total minimum lease payments	200,000
Less: Amount representing interest	<u>(13,787)</u>
Present Value of Net Minimum Lease Payments	<u>\$186,213</u>

Note 5. Long-term Debt

A. Solid Waste Revolving Loan

In 1988, Johnson County owned Van Lear Landfill and stopped accepting waste. On April 10, 2000, Johnson County entered into a loan agreement with the Kentucky Infrastructure Authority to close the Van Lear Landfill but EPA stated they needed to do some additional work to actually close. The Authority loaned the County \$124,583 at an interest rate of 2.3% over 10 years. As of June 30, 2007, the principal amount outstanding is \$47,842. Currently, the certification has not been received but it is closed. Principal payments for the remaining years are:

	<u>Governmental Activities</u>	
<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$13,281	\$1,024
2009	13,588	718
2010	13,902	403
2011	<u>7,071</u>	<u>81</u>
Totals	<u>\$47,842</u>	<u>\$2,226</u>

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Page 34

Note 5. Long-Term Debt (Continued)

B. Public Properties Courthouse Corporation Liabilities

The County was liable for a \$685,000 note by the Public Properties Courthouse Corporation with a current interest rate of 6.75% for 28 years. This note was originally made with Farmer's Home Administration on January 1, 1987, and subsequently sold to GMAC Commercial Mortgage. As of June 30, 2007, the principal amount outstanding was \$0.

C. First Mortgage Revenue Bonds, Series 2004

The Justice Center Corporation (Corporation), an agency and instrumentality of the Fiscal Court issued \$9,540,000 in revenue bonds dated February 1, 2004, payable in 20 annual principal installments beginning August 1, 2005 with semi-annual interest payments at rates ranging from 2.00% to 4.50% beginning August 1, 2004. These bonds were used for the construction of the new facility.

The Corporation entered into a contract lease and option with the Administrative Office of the Courts (AOC). The lease provides the AOC lease the project site and project at a rental equal to the full amount of the principal and interest requirements on the bonds for each year in which the lease is renewed. On July 1 of each even numbered year, the lease may be renewed by AOC for another biennial period of two years. Should the AOC renew the lease until the bonds mature, the Corporation will convey the project site and the project to the Fiscal Court. As of June 30, 2007, bonds outstanding were \$8,820,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 370,000	\$ 313,480
2009	380,000	305,790
2010	385,000	297,180
2011	395,000	287,425
2012	405,000	276,417
2013-2017	2,245,000	1,175,492
2018-2022	2,715,000	708,090
2023-2025	<u>1,925,000</u>	<u>128,202</u>
Totals	<u>\$8,820,000</u>	<u>\$3,492,076</u>

D. Waste Control

The County has entered into the following agreement with the Kentucky Association of Counties Leasing Trust Program:

<u>Description</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Waste Control	December 13, 1993	January 20, 2013	Variable	\$48,000

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Page 35

Note 5. Long-Term Debt (Continued)

Scheduled payments for the remaining years are:

Fiscal Year Ended June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 7,000	\$2,517
2008	7,000	2,127
2009	8,000	1,712
2010	8,000	1,266
2011	9,000	838
2012-2013	<u>9,000</u>	<u>251</u>
Totals	<u>\$48,000</u>	<u>\$8,711</u>

E. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$9,185,000	\$ -	\$365,000	\$8,820,000	\$370,000
Financing Obligations	<u>453,266</u>	<u>-</u>	<u>357,424</u>	<u>95,842</u>	<u>20,281</u>
Governmental Activities Long-Term Liabilities	<u>\$9,638,266</u>	<u>\$ -</u>	<u>\$722,424</u>	<u>\$8,915,842</u>	<u>\$390,281</u>

Note 6. Interest On Long-Term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$368,391 in interest on bonds and notes.

Note 7. Employee Retirement System

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for nonhazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The County's contribution rate for hazardous employees was 28.21 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Note 7. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Ky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

On February 24, 2000, the Johnson County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to KRS 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2007, Johnson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Litigation

A. Former Sheriff Gay Cyrus Has A \$7,811 Deficit In Her 1992 Tax Account

There was a deficit of \$17,559 in the former Sheriff's 1992 Tax Account. This deficit resulted from undeposited 1992 tax receipts discovered in the 1992 tax audit. The deficit of \$17,559 has been reduced by payments of \$9,748 made March 20, 2000, leaving a balance of \$7,811 owed to the following taxing districts.

Johnson County School District	\$7,017
Paintsville Independent School District	<u>794</u>
Total	<u>\$7,811</u>

As of December 31, 2007, no additional payments have been made toward this deficit.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Page 37

Note 10. Litigation (Continued)

KRS 64.820(1) states the Fiscal Court shall collect any amount due the County from the County official as determined by the audit if the amount can be collected without suit. KRS 64.820(2) states that in the event the Fiscal Court cannot collect the amount due the County from a County official without suit, the Fiscal Court shall then direct the County Attorney to institute suit for the collection of the amount reported in the audit. Pursuant to KRS 64.820(1), the Fiscal Court has directed the County Attorney to institute suit for collection of the amounts due.

B. Former Sheriff Don McFaddin Has An Accumulated Deficit of \$11,592 In His Tax Accounts

Former Sheriff Don McFaddin has a deficit of \$11,592 in his tax account. These deficits resulted from undeposited tax receipts discovered during prior audits. The amounts owed the different taxing districts are as follows:

<u>TAXING DISTRICT</u>	<u>1993</u>	<u>1997</u>	<u>1998</u>	<u>TOTAL</u>
Johnson County School	\$4,125	\$1,256	\$3,177	\$ 8,558
Library	-	89	-	89
Health	-	92	2,818	2,910
Extension	-	29	-	29
Soil Conservation	-	6	-	6
Total	<u>\$4,125</u>	<u>\$1,472</u>	<u>\$5,995</u>	<u>\$11,592</u>

As of December 31, 2007, no payments have been made toward this deficit.

KRS 64.820(1) states the Fiscal Court shall collect any amount due the County from the County official as determined by the audit if the amount can be collected without suit. KRS 64.820(2) states that in the event the Fiscal Court cannot collect the amount due the County from a County official without suit, the Fiscal Court shall then direct the County Attorney to institute suit for the collection of the amount reported in the audit. Pursuant to KRS 64.820(1), the Fiscal Court has directed the County Attorney to institute suit for collection of these amounts due.

Note 11. Prior Period Adjustments

The beginning net asset balances as of June 30, 2006 for governmental activities of Johnson County Fiscal Court have been restated due to a correction of errors. The following is a reconciliation of net assets as of June 30, 2006, as previously reported to the restated net assets balance for the same period.

	<u>Governmental Activities</u>
Beginning Balance	\$9,153,878
Adjustment for Assets Held For Sale	25,000
Adjustment For Noncapitalized Lease	<u>(270,000)</u>
Restated Beginning Balance	<u>\$8,908,878</u>

**JOHNSON COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
REQUIRED SUPPLEMENTARY INFORMATION – MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

JOHNSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

Page 39

For The Year Ended June 30, 2007

GENERAL FUND				
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 2,058,919	\$2,058,919	\$ 1,912,047	\$ (146,872)
In Lieu Tax Payments	16,300	16,300	16,755	455
Excess Fees	1,073,600	1,150,979	1,321,590	170,611
Licenses And Permits	-	-	-	-
Intergovernmental Revenue	266,000	266,000	1,074,428	808,428
Charges For Services	1,000	1,000	8,793	7,793
Miscellaneous	994,020	1,073,174	720,564	(352,610)
Interest	41,000	41,000	47,446	6,446
Total Revenues	<u>4,450,839</u>	<u>4,607,372</u>	<u>5,101,623</u>	<u>494,251</u>
EXPENDITURES				
General Government	1,768,073	2,132,586	1,874,702	257,884
Protection To Persons And Property	484,691	530,180	530,168	12
General Health and Sanitation	915,418	1,242,345	1,207,692	34,653
Social Services	50,000	-	-	-
Recreation and Culture	25,000	-	-	-
Roads	269,000	191,856	191,856	-
Airport Board	2,500	2,500	-	2,500
Debt Service	29,513	29,857	24,213	5,644
Administration	718,726	777,461	755,005	22,456
Total Expenditures	<u>4,262,921</u>	<u>4,906,785</u>	<u>4,583,636</u>	<u>323,149</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>187,918</u>	<u>(299,413)</u>	<u>517,987</u>	<u>817,400</u>
OTHER FINANCING SOURCES (USES)				
Sale Of Assets	-	-	303,010	303,010
Transfers To Other Funds	(547,918)	(547,918)	(660,772)	(112,854)
Total Other Financing Sources (Uses)	<u>(547,918)</u>	<u>(547,918)</u>	<u>(357,762)</u>	<u>190,156</u>
Net Changes In Fund Balance	(360,000)	(847,331)	160,225	1,007,556
Fund Balances - Beginning	<u>360,000</u>	<u>847,331</u>	<u>846,936</u>	<u>(395)</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,007,161</u>	<u>\$ 1,007,161</u>

JOHNSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

Page 40

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,326,944	\$ 1,675,857	\$ 1,624,715	\$ (51,142)
Miscellaneous	4,028	4,028	4,028	-
Interest	36,500	36,500	12,249	(24,251)
Total Revenues	<u>1,367,472</u>	<u>1,716,385</u>	<u>1,640,992</u>	<u>(75,393)</u>
EXPENDITURES				
Roads	1,227,972	2,159,103	1,910,898	248,205
Administration	191,000	176,083	176,083	-
Total Expenditures	<u>1,418,972</u>	<u>2,335,186</u>	<u>2,086,981</u>	<u>248,205</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(51,500)</u>	<u>(618,801)</u>	<u>(445,989)</u>	<u>172,812</u>
OTHER FINANCING SOURCES (USES)				
Sale Of Assets	-	-	5,354	5,354
Total Other Financing Sources and (Uses)	<u>-</u>	<u>-</u>	<u>5,354</u>	<u>5,354</u>
Net Changes In Fund Balances	(51,500)	(618,801)	(440,635)	178,166
Fund Balances - Beginning	<u>51,500</u>	<u>618,801</u>	<u>618,804</u>	<u>3</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 178,169</u>	<u>\$ 178,169</u>

JOHNSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

Page 41

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 445,803	\$ 592,137	\$ 594,567	\$ 2,430
Interest	24,000	37,400	44,379	6,979
Total Revenues	<u>469,803</u>	<u>629,537</u>	<u>638,946</u>	<u>9,409</u>
EXPENDITURES				
General Government	38,866	50,079	41,979	8,100
Protection To Persons And Property	2,700	2,700	2,646	54
General Health And Sanitation	33,312	34,200	27,796	6,404
Social Services	57,628	77,846	69,320	8,526
Roads	343,403	1,159,503	519,341	640,162
Administration	43,894	44,224	32,550	11,674
Total Expenditures	<u>519,803</u>	<u>1,368,552</u>	<u>693,632</u>	<u>674,920</u>
Excess (Deficiency) Of Revenues				
Expenditures Before Other				
Financing Sources (Uses)	<u>(50,000)</u>	<u>(739,015)</u>	<u>(54,686)</u>	<u>684,329</u>
Net Changes In Fund Balances	(50,000)	(739,015)	(54,686)	684,329
Fund Balances - Beginning	<u>50,000</u>	<u>739,015</u>	<u>739,015</u>	<u>-</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 684,329</u>	<u>\$ 684,329</u>

JOHNSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

Page 42

INDUSTRIAL AUTHORITY #3 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 6,000	\$ 6,000	\$ 24,906	\$ 18,906
Total Revenues	6,000	6,000	24,906	18,906
EXPENDITURES				
Administration	6,000	6,000	-	6,000
Total Expenditures	6,000	6,000	-	6,000
Excess (Deficiency) of Revenues Expenditures Before Other Financing Sources (Uses)	-	-	24,906	24,906
Net Changes In Fund Balances	-	-	24,906	24,906
Fund Balances - Beginning	-	-	448,100	448,100
Fund Balances - Ending	\$ -	\$ -	\$ 473,006	\$ 473,006

JOHNSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Page 43

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Fiscal Court purchased two dump trucks for the road department under a noncapitalized lease for \$186,213. At the end of the year these trucks will be sold and the proceeds will be used to payoff the lease. The Fiscal Court is not required to make any payments until the sale of the trucks. The lease proceeds and expenditure was booked on the statement of revenues, expenditures, and changes in fund balances but wasn't made part of the budgetary comparison schedule. This noncapitalized lease is a reconciling item to the financial statements.

**JOHNSON COUNTY
COMBINING BALANCE SHEET –
NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2007

JOHNSON COUNTY
 COMBINING BALANCE SHEET -
 NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplementary Information
 June 30, 2007
 (Continued)

INDUSTRIAL AUTHORITY #4 FUND	PUBLIC PROPERTIES COURTHOUSE CORPORATION SINKING BOND FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
\$ 27,928	\$ 36,460	\$ 427,340
<u>\$ 27,928</u>	<u>\$ 36,460</u>	<u>\$ 427,340</u>
\$ -	\$ 36,460	\$ 36,460
27,928	-	390,880
<u>\$ 27,928</u>	<u>\$ -</u>	<u>\$ 427,340</u>

The accompanying notes are an integral part of the financial statements

**JOHNSON COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES –
NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
Other Supplementary Information**

For The Year Ended June 30, 2007

JOHNSON COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007
(Continued)

Page 49

INDUSTRIAL AUTHORITY #2 FUND	INDUSTRIAL AUTHORITY #4 FUND	HOMELAND SECURITY FUND	MACED MICROENTERPRISE ASSISTANCE FUND	PUBLIC PROPERTIES COURTHOUSE CORPORATION SINKING BOND FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
\$ -	\$ -	\$ 278	\$ 1,478	\$ -	\$ 130,624
632	1,471	-	-	2,495	22,049
632	1,471	278	1,478	2,495	152,673
-	-	278	-	-	421,690
-	-	-	1,478	-	1,478
-	-	-	-	380,772	380,772
-	-	-	-	-	12,948
-	-	278	1,478	380,772	816,888
632	1,471	-	-	(378,277)	(664,215)
-	-	-	-	380,772	660,772
-	-	-	-	380,772	660,772
632	1,471	-	-	2,495	(3,443)
11,364	26,457	-	-	33,965	430,783
\$ 11,996	\$ 27,928	\$ -	\$ -	\$ 36,460	\$ 427,340

The accompanying notes are an integral part of the financial statements

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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Paintsville, Kentucky 41240-1215

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Roger T. Daniel, Johnson County Judge/Executive
Members of the Johnson County Fiscal Court
Paintsville, Kentucky

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Johnson County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated January 3, 2008. Johnson County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Johnson County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Johnson County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Johnson County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
(CONTINUED)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Johnson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and is described in the accompanying comment and recommendation as item 2007-1.

We noted certain matters that we reported to management of Johnson County, in a separate letter dated January 3, 2008.

Johnson County's response to the findings identified in our audit is described in the accompanying comments and recommendations. We did not audit Johnson County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Johnson County Fiscal Court and the Kentucky Department for Local Development and is not intended to be and should not be used by anyone other than the these specified parties.

Wells & Company, PSC

Wells & Company, PSC
Paintsville, Kentucky

January 3, 2008

**JOHNSON COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2007

**JOHNSON COUNTY
COMMENT AND RECOMMENDATION**

Page 54

Fiscal Year Ended June 30, 2007

NONCOMPLIANCE:

2007-1 The Fiscal Court Should Properly Record All Financial Transactions To The Ledgers

During our testing, several receipt items had to be reclassified due to account misclassifications. We recommend the Treasurer properly classify and post transactions in the quarterly report.

County Judge/Executive Roger T. Daniel's Response:

The County Treasurer does an excellent job with our books. When some revenue items are received, they are unidentified and hard to tell which revenue account to post in. We will request that a better description be given to the County from the State on monies received.

PRIOR YEAR FINDINGS:

The Fiscal Court Should Record Approved Budget Amendments Accurately On The 4th Quarter Financial Statements (Corrected).

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

JOHNSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

Appendix A

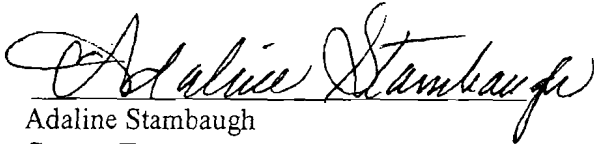
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
JOHNSON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2007

The Johnson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "R. T. Daniel", written over a horizontal line.

Roger T. Daniel
County Judge/Executive

A handwritten signature in black ink, appearing to read "Adaline Stambaugh", written over a horizontal line.

Adaline Stambaugh
County Treasurer